BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-011514

DIRECT TESTIMONY OF WILLIAM G. JOHNSON

REPRESENTING AVISTA CORPORATION

Exhibit T_____ (WGJ-T)

I. Introduction

Q. Please state your name, business address, and present position with Avista Corporation.

A. My name is William G. Johnson. My business address is East 1411 Mission Avenue, Spokane, Washington, and I am employed as a Senior Power Supply Analyst in the Energy Resources Department.

Q. Please state your educational background and professional experience.

A. I graduated from the University of Montana in 1981 with a Bachelor of Arts Degree in Political Science/Economics. I obtained a Master of Arts Degree in Economics from the University of Montana in 1985. I started working for Avista in April 1990 as a Demand Side Resource Analyst. I joined the Energy Resources Department as a Power Contracts Analyst in June 1996. My primary responsibilities include the evaluation of the company's long-term electricity supply options.

Q. Please summarize your testimony?

A. My testimony will describe the power cost deferral mechanism that Avista has used to calculate the increase in power supply expense and quantify the factors that contributed to the deferrals. I am sponsoring Exhibit Nos. ____ (WGJ-1) through ____ (WGJ-8), which I will introduce as I refer to them in my testimony. A table of contents for my testimony is as follows:

II. Overview of Power Cost Deferral Calculations

The Company has used two different methods to quantify the changes in power supply expenses. For the months of July 2000 through November 2000 the Company used a model that calculated net power supply expenses based on actual generation, actual fuel prices and actual average short-term energy purchase and sales prices. This model calculated the Company's net energy purchases based on the authorized level of obligations included in the Company's last general rate case. Modeled quantities of purchase and sales energy were multiplied times the Company's actual average short-term energy prices to determine net energy purchase expense. Net purchase expense plus actual fuel costs were compared to the authorized levels to determine the change in net power supply expense on a system basis. The Washington allocation of the expense change was the power cost deferral for the month.

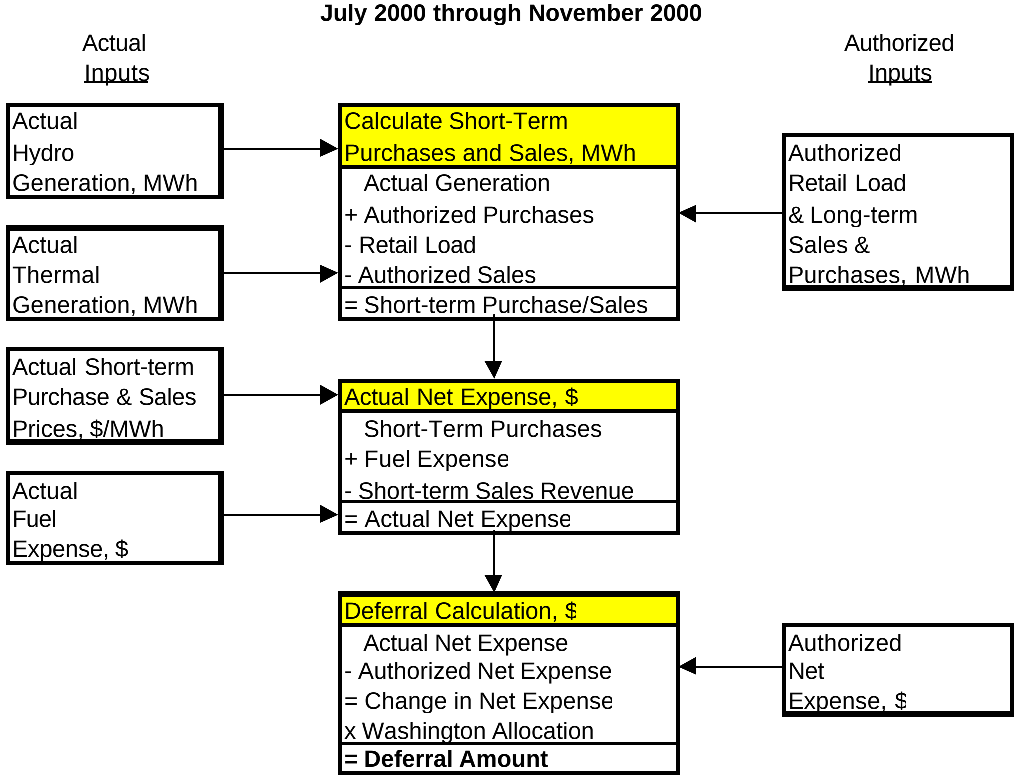
On December 21, 2000, the Company petitioned the Commission to change the methodology for calculating the power cost deferral. The methodology was changed to capture the effect of retail load and wholesale load changes on the Company's expenses. The Commission granted permission to change the methodology on January 24, 2001, effective for calculations beginning in December 2000. The current methodology compares the actual and authorized amounts in FERC accounts 555 (Purchased Power), 501 and 547 (Fuel) and 447 (Sales for Resale) to compute the change in power supply expense. This methodology also includes a retail revenue adjustment to account for the revenue offset to the power supply costs. When retail loads increase above authorized levels, net power supply costs increase. An increase in retail revenue is recorded in the deferral calculation as an offset to increased power supply costs to serve the increase in retail load. Likewise, a decrease in retail revenue is recorded as an offset to the reduced power supply costs resulting from serving a reduced retail load.

III. Description of Deferral Mechanism July 2000 – November 2000

Q. Would you please describe the deferral mechanism that was used for the July 2000 through November 2000 period?

A. Yes. The deferral mechanism in place for the July 2000 through November 2000 period calculated the increase in the Company's power supply expenses based on changes in hydro and thermal generation, fuel prices and short-term market prices. In general, the actual level of net power supply expenses (purchases plus fuel minus sales) in each month was compared to the authorized net power supply expense for the month. The difference in system expense was multiplied by the Washington allocation of 66.99% to determine the deferral amount. The illustration below shows the function of the deferral mechanism used during the July through November period. The deferral calculations for the period July 2000 through November 2000 are shown on Exhibit ___ (WGJ-1).

Power Cost Deferral Mechanism
July 2000 through November 2000



Q. What is included in the calculated Actual Net Expense?

A. The Actual Net Expense includes the net purchase expense (short-term purchases minus short-term sales) plus actual fuel expense. The net purchase expense is determined by first calculating the Company's net energy position during heavy load and light load hours. The energy position is determined by subtracting resources, consisting of actual hydro and thermal generation and authorized long-term purchases from the authorized obligations (retail load plus long-term sales). If resources exceed obligations then the Company is a net seller. If obligations exceed resources then the Company is a net purchaser. If the Company is a seller, the megawatt-hours of sale energy are multiplied by the average system short-term sales price to determine short-term sales revenue. If the Company is a purchaser, the megawatt-hours of purchase energy are multiplied by the average system short-term purchase price to determine short-term purchase expense. Actual Net Expense is the sum of short-term purchase expense plus fuel expense minus short-term sales revenue.

Q. How were the average system short-term purchase and sales prices determined?

A. The average short-term purchase and sales prices were determined by averaging all of the Company's short-term system purchases and sales in four categories:

1. Short-term On-Peak Purchases
2. Short-term Off-Peak Purchases
3. Short-term On-Peak Sales
4. Short-term Off-Peak Sales

Within each category, the weighted average price was calculated. These average prices were multiplied by the Company's energy position (deficit or surplus) during on-peak and off-peak hours. The purchase price is used when the Company is deficit and the sales price is used when the Company is surplus. The transactions included in the average prices have been provided to the Commission as part of the supporting work-papers with each month's deferral calculation.

Q. Do the average short-term purchases and sales include transactions that were made for non-system/commercial trading?

A. No. The average purchase and sales prices are calculated from purchases and sales made to cover system deficits or sell system surpluses. The purchases and sales include monthly and quarterly block purchases and sales and all pre-scheduled (day ahead) and real-time purchases and sales. Excluded are the monthly and quarterly block trades that were made for commercial trading purposes with the intention of covering with another purchase or sale.

Q. How did the actual short-term purchase and sale prices compared to the authorized and Mid Columbia index prices for the period July 2000 through December 2000?

A. The Company's actual short-term purchased power prices have been much higher than the authorized prices from the last general rate case but lower than Mid Columbia daily index prices for the months of July 2000 through November 2000. Exhibit ____ (WGJ-2) shows the actual purchase prices used in the power cost deferral calculations in comparison to Mid Columbia index prices and the authorized short-term energy prices.

Q. What expenses and revenues are included in the Authorized Net Expense?

A. The Authorized Net Expense includes the net purchased power expense plus fuel costs included in Avista's last general rate case. The net power purchase expense is the short-term purchases less short-term sales. Fuel expenses include the coal and wood fuel expense at Colstrip and Kettle Falls, respectively, and the natural gas fuel expense at Rathdrum and Northeast.

Q. Does the Authorized Net Expense include all the adjustments made by the Commission in its final rate order on Avista's general rate case?

A. Yes is does. The Authorized Net Expense includes all of the power supply related revenues and expenses as approved by the Commission in its final order. These adjustments and their amount are shown in Exhibit ___ (WGJ-3).

Q. Please explain the Bellingham Cold Storage Margin adjustment in August and September.

A. The Bellingham Cold Storage Margin adjustment represents the additional value created by Avista in receiving approval to run the Northeast turbine for 30 days in August and September and selling 11 MW of the output of the plant. Air emission permits limit the number of hours that Northeast turbine can operate in a twelve month period. Avista received a 30-day exemption to its total hour limits on the plant if some of the output was sold at a reasonable price for use by Bellingham Cold Storage[1]. The margin adjustment in the deferrals is the difference between the revenue received from the sale and the cost of fuel to generate the power sold. Any additional generation not sold for the use by Bellingham Cold Storage, and the fuel to generate that power, was included in the actual generation and fuel expense in the deferral calculation. Customers benefited both from the direct margin on the sale and the reduction in net purchase and fuel expense from the additional generation. The sale and additional generation from the plant reduced the power cost deferrals by almost $2 million. The Company retained no benefit from the Washington allocated portion of the sale.

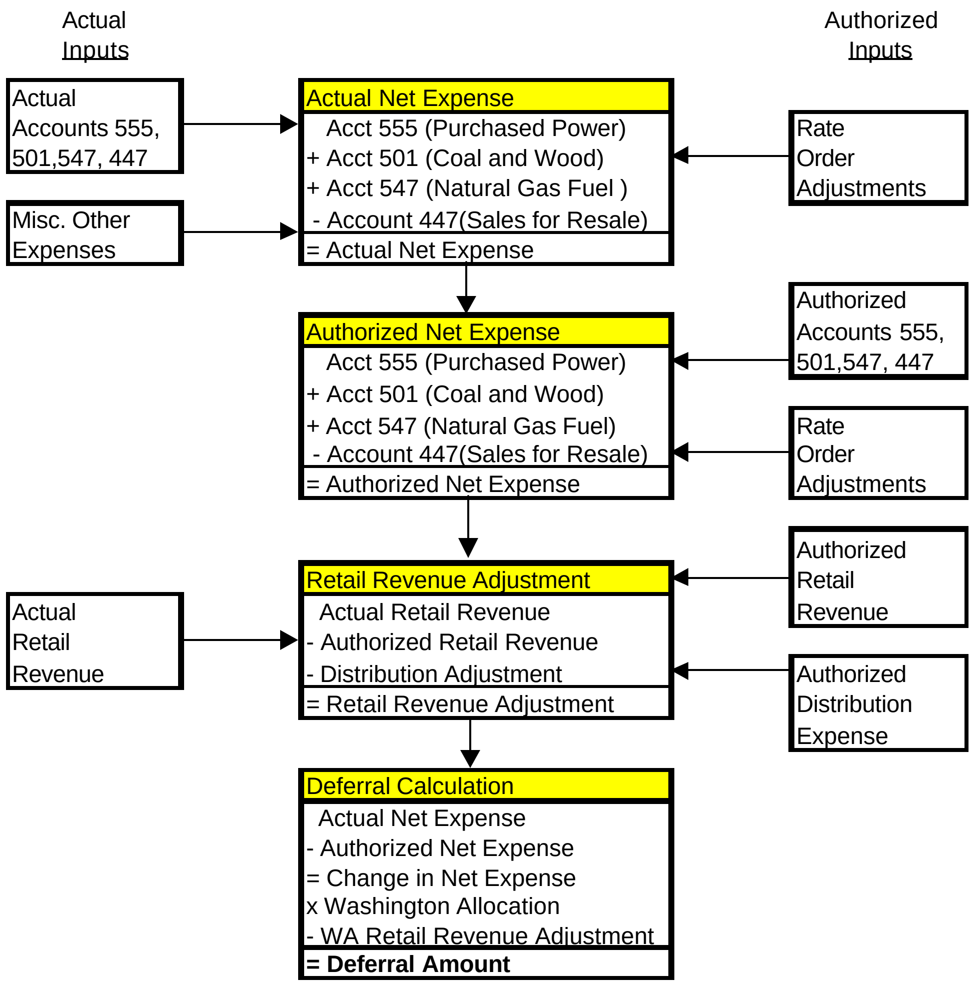
IV. Description of Deferral Mechanism December 2000 – September 2001

Q. Please describe the deferral mechanism being used since December 2000.

A. The power cost deferral method since December 2000 calculates the increase in power supply expenses based on changes in generation, fuel prices, market prices, retail loads and long-term contract obligations. The primary difference from the prior mechanism is that it is based on a comparison of FERC accounts to determine purchased power expense and wholesale revenues, rather than a modeled calculation of purchase and sales as was done in the July – November 2000 mechanism. Specifically, the current deferral mechanism is based on the difference between actual and authorized amounts in FERC accounts 555 (Purchased Power), 501 (Thermal Fuel Expense), 547 (Other Fuel Expense) and 447 (Sale for Resale). The mechanism also includes a retail revenue adjustment to account for changes in retail revenues that are not captured in FERC account 447. This is necessary since increased retail loads would lead to higher power supply purchase expense and reduced retail loads would lead to lower net purchase expenses. A diagram illustrating the current deferral mechanism is shown below.

[1] Avista sold the power to a third party utility, who then made arrangements for sale of the power to Bellingham Cold Storage.

Power Cost Deferral Mechanism
December 2000 - September 2001



The deferral calculations for the period December 2000 through September 2001 are shown on Exhibit ___ (WGJ-4).

Q. How is the Actual Net Expense calculated in the current deferral mechanism?

A. The Actual Net Expense is calculated by summing FERC accounts 555 (Purchased Power) and 501 and 547 (Fuel) and subtracting FERC account 447 (Sales for Resale).

Q. Why are only the four FERC accounts included in the deferral mechanism?

A. These four accounts represent the majority of the net power supply expenses. They are also the accounts that have the greatest volatility and are subject to uncontrollable factors, such as weather, market prices and fuel costs. Other power supply accounts cover areas such as transmission expense and revenues, other expenses and revenues such as headwater benefits expense and revenue, and rents. Expenses and revenues in these accounts are, for the most part, much less volatile and don't vary due to weather or price changes.

Q. How was the Authorized Net Expense for these four FERC accounts determined?

A. The Authorized Net Expense includes the expense and revenues in each of the four FERC accounts included in Avista's last general rate case. The Authorized Net Expense for the current deferral method is shown in Exhibit ____ (WGJ-5).

Q. Were adjustments made to these accounts consistent with the Commission's final rate order on Avista's general rate case?

A. Yes. All of the adjustments ordered by the Commission have been incorporated into the Authorized Net Expense. A list of these adjustments and the adjustment amount is shown in Exhibit ____ (WGJ-6).

Q. What expenses or revenues are not included in calculating the Actual Net Expense?

A. The following system expenses and revenues are not included in each of the four FERC accounts:

<u>Account 555 – Purchased Power</u>

- Wood Power Buyout Amortization (Idaho Allocation)

<u>Account 501 – Fuel (Coal and Wood)</u>

- No exclusions

<u>Account 547 – Fuel (Natural Gas)</u>

- Fuel Cell Gas Expense

<u>Account 447 - Sales for Resale</u>

- PGE Sale Monetization Amortization (Idaho Allocation)
- Inter-company Transfers

In addition to these exclusions, the cost of other measures taken by the Company to reduce power costs that are not normally recorded in these accounts, such as the costs associated with the permission to run Northeast additional hours and other measures I will explain later in my testimony. The exclusions for the Wood Power Buyout amortization, the Fuel Cell Gas expense and the PGE Sale amortization are consistent with the Commission's final rate order. The inter-company transfer expenses occur between the generation and transmission areas of the Company and were not included in the Company's normalized power supply expenses in the last general rate case.

Q. Why does the current deferral mechanism include a retail revenue adjustment?

A. Increased retail load results in increased power supply costs. Likewise, reduced retail loads result in reduced power supply costs. The rise in short-term market prices has resulted in the situation where the Company is forced to purchase power at prices that are higher than the price received when the power is sold to meet increased retail loads. A retail revenue adjustment is necessary because the revenue that the Company receives from retail sales is not included in the calculation of net power supply expense using the four FERC accounts in the power supply deferral calculation. If retail loads are higher than what was used to calculate authorized power supply expenses, then increased retail revenues must be recognized as an offset to the increased power supply expenses.

Q. Please explain why it is appropriate to include a revenue adjustment for the difference between actual and authorized retail revenue in the current power cost deferral mechanism.

A. Since actual retail load requirements are one of the components that determine the actual power supply revenues and expenses, it is appropriate to include a retail revenue adjustment for the difference between actual and authorized revenue in the amended power cost deferral mechanism. Changes in wholesale sales contracts will be picked up in the calculation of the difference between actual and authorized revenues in Account 447. A retail revenue adjustment also needs to be included to reflect the difference between actual and authorized retail revenue, adjusted for distribution costs to serve load growth. Mr. Mckenzie will explain how the revenue adjustment is calculated.

V. Line Item Expenses Deferred

Q. Can you please explain what is included in the line labeled "Northeast CT Emissions/Lease Expense?"

A. This expense includes emissions mitigation fees and related costs and lease payments. The mitigation fees are related to Avista' agreement with the Spokane County Air Pollution Authority (SCAPCA) to increase the hours of operation of the Northeast turbine. Part of the fees went to secure other emission mitigation and part went to fund programs to help low-income customer's pay their utility bills. The lease payments included in the deferrals are for the lease of an engine that was used while the plant's engines were being retrofitted with pollution control modifications.

Q. What expenses are included in the line labeled "Devil's Gap?"

A. The Devils Gap expense in September's deferral includes lease payments and associated use tax for the months of July 2001 and August 2001. Devil's Gap was a 20 MW diesel fired generation facility located northwest of Spokane.

Q. What expenses are included in the line labeled "Kettle Falls Bi-Fuel?"

A. The Kettle Falls Bi-Fuel expense in September's deferral includes a lease payment for September 2001 and operation and maintenance fees for August and September 2001. Fuel expense at the plant was included in Account 547. Also included in September 2001 was a transfer of $34,623 from a capital account to the deferral account for incremental direct installation costs at the Kettle Falls Bi-fuel plant.[2]

Q. Please explain the line labeled "Net Fuel Expense not included in Account 547."

A. This line reflects the expense the Company incurred to sell gas that was purchased for the combustion turbine plants. This line item is necessary because under FERC accounting rules the Company cannot book fuel expenses in Account 547 if the fuel was not consumed. Because the Company sold off some the gas purchased for the combustion turbine plants, the purchase expense and sales revenue of the gas was recorded in other accounts (456 revenue and 557 expense). The expense included in the deferral is the gain or loss the Company incurred from the resale of the gas.

VI. Components of Power Cost Deferrals

Q. Have you performed any analysis that quantifies the impact of the primary factors driving power supply costs over the period July 2000 through September 2001?

A. Yes I have. The analysis calculates the primary factors contributing to the power cost deferrals over the period July 2000 through September 2001. During this period the deferrals totaled $194,711,351. Interest on the deferral balance is $4,947,636 bring the total deferral balance as of September 30, 2001 to $199,658,987. Less $1,186,864 of small generation fixed costs, which the Company proposes to address in the upcoming general rate case, brings the deferral balance to $198,472,123.

Decreased hydro generation and higher market energy prices contributed to $290 million of the deferral total. Increased thermal generation decreased deferrals by $90 million. Other factors, including decreased retail loads, the buy-back program expense, interest and other expenses netted out against each other. The table below shows the major factors contributing the deferral total. The detailed calculations supporting the table are shown in Exhibit ____ (WGJ-7).

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[2] The Company proposes to address the prudence and recoverability of the costs associated with the Devil's Gap and Kettle Falls Bi-Fuel expenses in the upcoming general rate case.

Contribution to Deferrals
July 2000 - September 2001
($millions)

Hydro Generation	$197.8
Price Impact	$91.6
Colstrip	($11.2)
Kettle Falls	($10.4)
Rathdrum	($58.5)
Northeast	($10.0)
Retail Loads	($16.2)
Buy-back	$5.5
Other	$6.2
Interest	$4.9
Total of Components	$199.7
Less Small Generation Fixed Costs	($1.2)
Total Deferral Balance	$198.5

Q. What level did the Company's thermal generation plants operate at during the deferral period?

A. During the deferral period the Company's four generation plants, Colstrip, Kettle Falls, Rathdrum and Northeast generated an average 363 megawatts. This compares to a total availability of 362 average megawatts. Colstrip and Kettle Falls generated less than their expected total availability, while both Rathdrum and Northeast produced additional generation due to arrangements made by the Company to increase the available hours for these plants. Below is a table showing the total availability and actual generation of the Company's thermal plants over the deferral period.

Thermal Generation
Total Availability and Actual Generation

Thermal Plant	Total Availability aMW	Actual Generation aMW	Increased (Decreased) Generation aMW
Colstrip	191	175	-16
Kettle Falls	45	43	-2
Rathdrum	123	131	8
Northeast	3	14	11
Total Thermal Generation	362	363	1

Q. How has the Company operated its hydro system for the benefit of retail customers?

A. The Company shapes its available hydro generation into the heavy load hours to maximize its value and to meet retail loads. The majority (69%) of hydro generation during the deferral period was produced during heavy load hours when retail loads are higher and market energy is more expensive. Exhibit No. ____ (WGJ-8) graphically illustrates the shift of hydroelectric generation to heavy load hours and how resources operated to meet retail loads in each month of the deferral period. The differences between the retail load line and the total resources were met with long-term and short-term contract arrangements.

Q. Does that conclude your direct testimony?

A. Yes.